

VIEWPOINT

2017 BOISE, ID OFFICE MID-YEAR REPORT

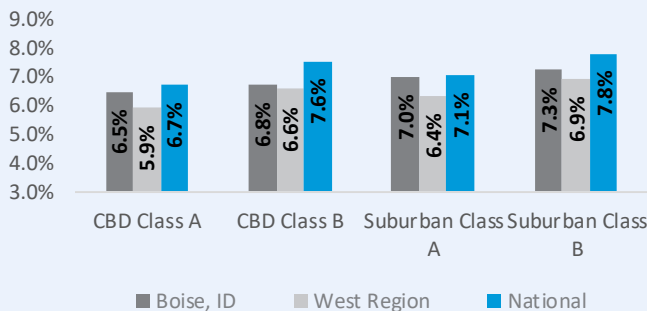
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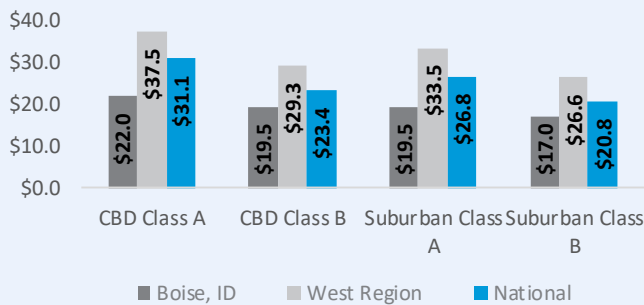
Market Rate Indicators (Y/Y)

Categories	Suburban Class	
	CBD Class A	A
Going In Cap Rate (%)	▼	▲
Asking Rent (\$/SF)	◄►	▲
Vacancy Rate (%)	▲	▲

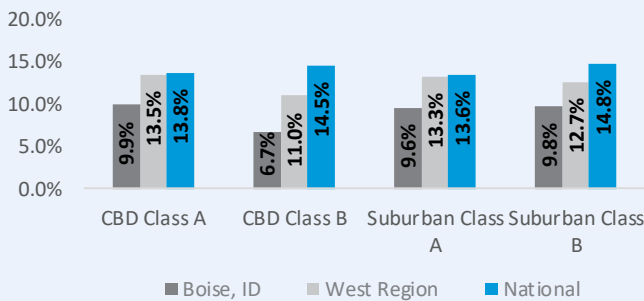
Going In Cap Rate Comparisons (%)



Asking Rents (\$/SF)



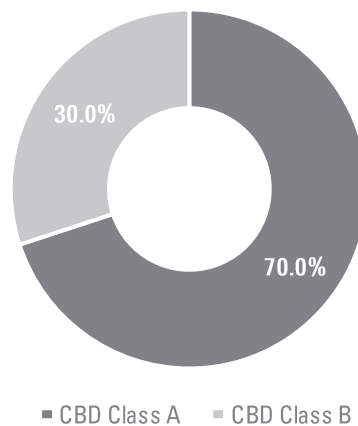
Vacancy Rates (%)



Boise, ID Office Market Overview

The Boise CBD office market is in a different cycle of the overall market than the greater valley office market as a whole. Despite strong construction activity, downtown office development over the past 3+ years has met with significant preleasing and move-up demand, or user consolidation from one or more suburban locations to a downtown headquarters presence. As a consequence, downtown Boise remains in an expansion cycle of the market. The suburban market is fundamentally different, reflecting slow improvement in overall vacancy, but relatively little development activity. Hence, while 2016 marked the greatest office absorption in over 10 years, at over 750,000 SF, but most of it was clearly in downtown Boise. In contrast, for the first 6 months of 2017, reported office absorption for the entire MSA has been less than 25,000 SF. This tends to imply that some office users are downsizing or making greater use of flex-time and work-from-home opportunities, while others are taking advantage of move-up opportunities, such that there has been significant leasing activity, yet relatively nominal net change. That being the case, per the area's largest commercial brokerage, overall office vacancy has declined from about 13.81 percent at the beginning of 2012, to 9.84 percent as of the beginning of 2017, or just under 400 basis points, indicating an average improvement in vacancy rate of about 80 basis points over the past 5 years. Not surprisingly, there is a strong correlation between office vacancy rate and the local unemployment rate, the spread trending 500 to 600 basis points premium of the vacancy rate over the unemployment rate post-recession, and as much as 900 basis points prior to it. The recovery in office space has clearly been uneven, with significant rent and value appreciation in downtown and Class A product in general, less so with suburban and lower-category product. As of the early part of 2017, cap rate compression has continued, reflecting little to know impact of upward interest rate bias. Investors remaining very selective in the assets they are willing to take on, most unwilling to acquire a property with a lease-up challenge. We anticipate continued improvement in the office sector, but premium product with a superior construction quality, superior location, superior amenities, or a superior tenant profile will continue to realize the highest demand.

Distribution of Total Inventory



5,766,212 SF
CBD Office Inventory
2.77% - 12 Mo. Proj.
Construction/Inventory

Integra Realty Resources - Boise

RiverWalk Center, 1661 W. Shoreline Drive, Suite 200, Boise, ID 83702, 208-342-2500
Bradford Knipe, MAI, ARA, CRE, CCIM, Senior Managing Director, bknipe@irr.com



Change In Value Next 12 Months



2% - 3.9%

CBD Class A



2% - 3.9%

Suburban Class A

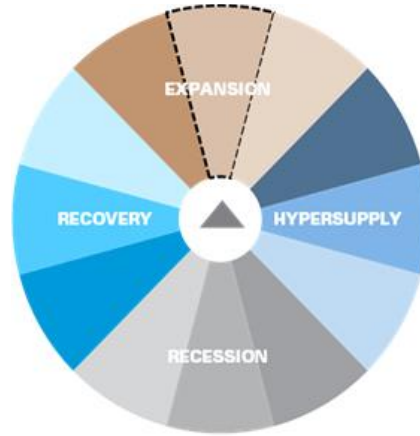
2% - 3.9%

CBD Class B

2% - 3.9%

Suburban Class B

Market Cycle: Expansion Stage 2



- Moderate/High New Construction
- Decreasing Vacancy Rates
- Moderate/High Employment Growth
- High Absorption
- Med/High Rental Rate Growth

Forecasts

Boise, ID 12-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Discount Rate	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Reversion Rate	Remain Steady - no change	Remain Steady - no change	Remain Steady - no change	Remain Steady - no change
Construction (SF)	160,000		100,000	
Years to Balance	In Balance	In Balance	1	1

Boise, ID 36-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Market Rent Change	2.50%	2.50%	2.50%	2.50%
Expense Rate Change	2.50%	2.50%	2.50%	2.50%
Change in Value	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%
Annual Absorption (SF)	68,900	26,500	135,000	143,100

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